

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

~~December 30, 2022~~ ~~Agenda ID #21276~~
~~Ratesetting~~

~~TO PARTIES OF RECORD IN APPLICATION 21-11-006:~~

~~This is the proposed decision of Administrative Law Judge Patricia Miles. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's February 2, 2023 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.~~

~~Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.~~

~~The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).~~

~~/s/ MICHELLE COOKE~~
~~Michelle Cooke~~
~~Acting Chief Administrative Law Judge~~

~~AES:sgu~~
~~Attachment~~

ALJ/PM6/sgu

PROPOSED DECISION

Agenda ID #21276 [\(Rev. 1\)](#)

Ratesetting

[2/2/2023 Item #16](#)

Decision **PROPOSED DECISION OF ALJ Miles** (Mailed 12/30/2022)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of
Volcano Telephone Company
(U1019C) to Modify Intrastate
Revenue Requirement and Rate
Design and Adjust Selected Rates.

Application 21-11-006

**DECISION APPROVING REVENUE REQUIREMENT, RATE DESIGN AND
SELECTED RATES FOR VOLCANO TELEPHONE CO. FOR TEST YEAR 2023**

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**Appendix A: Volcano Results of Operations Adopted Rates
and Basic Business Service Rate**

**Appendix B: New Volcano Basic Residential Service Rate
and Basic Business Service Rate**

[Appendix C: Volcano Telephone Company Tariff filed February 2022](#)

DECISION APPROVING REVENUE REQUIREMENT, RATE DESIGN AND SELECTED RATES FOR VOLCANO TELEPHONE CO. FOR TEST YEAR 2023

Summary

This decision authorizes a revenue requirement for Volcano Telephone Company, as summarized in the following table, and as discussed in greater detail herein:

Rate Case Item	Volcano's Proposed Amount	Amount Adopted by this Decision
Operating Revenues	\$11,741,175	\$10,798,962
Operating Expenses	\$9,142,185	\$8,226,431
Total Rate Base	\$28,497,714	\$28,207,583
Authorized Rate of Return	9.12%	9.12%
Return on Rate Base	\$2,598,991	\$2,572,532
Revenue Requirement	\$11,741,176	\$10,798,962

This decision adopts an overall intrastate revenue requirement of \$10,798,962 for Test Year 2023, including support of \$2,911,734 from the California High Cost Fund-A. Upon adoption of this decision, the basic rates for Volcano Telephone Company's residential customers shall be \$27.50 exclusive of surcharges, fees, and taxes)¹, and the rates for Volcano Telephone Company's business customers will be set at \$38.95 (exclusive of surcharges, fees, and taxes). Even with surcharges and fees added to the basic rate, the rate for Volcano Telephone Company's residential customers is within the \$30 to \$40 range for small telephone corporations that the California Public Utilities Commission set

¹ As of May 23, 2022, basic residential rate would be approximately \$38.29 inclusive of surcharges, fees, and taxes. (See Opening Testimony of Cal Advocates (Ahlstedt at 1-16).)

in Decision 21-06-004. The basic rate is deemed just and reasonable and reasonably comparable to rates charged to customers of urban telephone corporations and should be adopted.

Application 21-11-006 is closed.

Background

1. The Parties

1.1. Volcano Telephone Company

Volcano Telephone Company (Volcano) owns and operates a telephone system over which it provides local exchange telephone service in Alpine, Amador, Calaveras, and El Dorado Counties. Volcano services approximately 9,200 access lines in its four telephone exchanges: Pine Grove, Kirkwood, Pioneer, and West Point. Its system consists mainly of a system of cables and wires facilitating connections to customer locations and interconnection to the public switched telephone network. Volcano's infrastructure includes underground and aerial cable and lines, radio equipment, central office equipment, land, buildings, and miscellaneous other equipment.² It seeks to provide its customers with access to an evolving level of broadband speed and bandwidth, consistent with the growing customer demand for advanced services, and is prepared to make more than \$22 million in additional investments in network upgrades through the end of 2023, including investments made year to date in 2021, with a goal of extending fiber to more residential and business locations as soon as reasonably possible.³

² See Application at 28.

³ Application at 2.

1.2. Public Advocates Office of the Commission

The Public Advocates Office of the California Public Utilities Commission (Cal Advocates) is an independent organization within the California Public Utilities Commission (Commission) which advocates on behalf of ratepayers statewide. Its statutory mission is to obtain the lowest possible utility rates for customers consistent with safe, reliable service and the state's environmental goals. Cal Advocates also strives to ensure that no one is left behind and that all communities have access to safe and affordable electric, gas, water, and communication services including broadband service.

2. Procedural History

Volcano filed its general rate case (GRC) Application (A.) 21-11-006 on November 1, 2021 (Application), requesting review of its intrastate revenue requirement and rate design.⁴ Volcano proposes to adjust its existing basic residential rate of \$24.00 to \$25.00 and its business rate of \$34.00 to \$35.00.⁵ Volcano served direct testimony from five witnesses in support of its Application.⁶

The Application appeared on the Commission's Daily Calendar on November 17, 2021. On November 18, 2021, in Resolution ALJ 176-3497, the Commission preliminarily designated the proceeding as ratesetting and concluded that hearings would be necessary.

⁴ The Commission approved Volcano's last rate case for Test Year (TY) 2017, in Decision (D.) 16-09-049.

⁵ Application at 20.

⁶ Volcano served prepared testimony by (1) John Lundgren, Volcano's Vice President of Network Services (2) Brenda Shepard, Volcano's Chief Financial Officer (3) Lynn Robert Merrill, a consulting engineer and network design expert (4) Chad Duval, Volcano's cost consultant and regulatory policy expert and (5) Dale Lehman, an economist and expert on the affordability of utility service.

On December 1, 2021, Cal Advocates filed a protest to Volcano's application questioning, among other things, whether Volcano accurately calculated its corporate and operating expenses; whether Volcano overstated its depreciation expenses; whether Volcano complied with D.21-06-004; whether Volcano's California High Cost Fund-A (CHCF-A) draw is reasonable, and whether elements of Volcano's rate design are reasonable and comply with D.21-04-005. Volcano filed a reply on December 13, 2021.

A prehearing conference (PHC) was held on January 19, 2022. Based on the application, Cal Advocates' protest, Volcano's reply to the protest, the parties' PHC statements and discussion at the PHC, the assigned Commissioner issued the Scoping Memorandum and Ruling on March 2, 2022 setting the following issues for hearing, each of which will be discussed below in this decision:

- a. What level of revenue requirement (including corporate and operating expenses, depreciation expenses, rate base and new plant additions and tax liabilities) is necessary to provide Volcano with revenues and earnings sufficient to allow it to operate in a manner that allows it to deliver safe, reliable, high-quality voice communication services, which comply with Section 451 and General Order (GO) 133-D?
- b. What are the reasonable projections for local network service end user rate, end user revenues, High Cost Loop Support revenues, intercarrier compensation/access revenues, miscellaneous revenues, broadband revenue imputation and CHCF-A support?
- c. What end-user rates are just and reasonable for Volcano's customers and reasonably comparable to rates charged to customers of urban telephone corporations per Pub. Util. Code Section 275.6(c)(3)?
- d. What are the projected retail broadband revenues of Volcano and its affiliate internet service provider (ISP) and

- what amount of the retail revenues of the ISP are subject to imputation as part of the determination of rate design and CHCF-A support as required by D.21-04-005?
- e. Is Volcano's proposed CHCF-A draw/subsidy for test year 2023 appropriate?
 - f. Are Volcano's proposed corporate and operating expenses within the Federal Communications Commission corporate and operating expense caps adopted in D.21-06-004? What does D.21-06-004 require of Volcano with respect to discovery related to corporate and operating expenses?
 - g. Are the proposed plant improvements necessary for providing safe, reliable, and high-quality voice and broadband services?
 - h. Does the application raise issues pertinent to the CPUC's Environmental Social Justice Action Plan (ESJAP), and if so, whether the objectives of the ESJAP are met?

A virtual Public Participation Hearing (PPH)⁷ was held on April 13, 2022. Cal Advocates served opening testimony on May 23, 2022.⁸ Volcano served rebuttal testimony on July 1, 2022.

Volcano and Cal Advocates exchanged extensive discovery in the form of detailed data requests. Evidentiary hearings (EH) were held virtually on August 8, 9 and 10, 2022. The parties filed Opening Briefs on September 12, 2022. Reply briefs were filed on October 10, 2022. On November 17, 2022, Volcano filed an Amended Reply brief to correct certain dollar figures, but in other respects its amended brief mirrors the reply brief filed October 10, 2022. On December 12, 2022, Volcano filed a Motion to Reopen the Record to admit August 11, 2022

⁷ A PPH is not a formal hearing at which evidence is taken into the record. However, it provides an opportunity for members of the public to offer comments to the Administrative Law Judge (ALJ) about the quality of service by Volcano as well as any other issues that may be of concern to the communities that Volcano serves.

⁸ Cal Advocates served prepared testimony by James Ahlstedt, Bixia Ye and Benny Corona.

correspondence from the National Exchange Carrier Association (NECA) to NECA's California member companies, including Volcano. The letter was admitted to the record, as the record was not yet submitted.⁹

2.2. Customer Notice – Rule 3.2

As required by Rule 3.2,¹⁰ Volcano complied with the Commission's customer notice requirements by timely notifying its customers on November 26, 2021 (by bill inserts) and on November 24, 2021 (by electronic link for customers who receive bills electronically) of the proposed increases to its services. Volcano also published Notice of its Application. Such notice duly approved by the Commission's Public Advisor's Office in (1) the Amador Ledger Dispatch, a newspaper of general circulation, on November 26, 2021 and (2) the Calaveras Enterprise, a newspaper of general circulation, on November 24, 2021. Volcano filed its Notice of Compliance with Rule 3.2 on December 7, 2021.

3. Legal Policy Authority for this GRC

Pub. Util. Code § 451 provides that public utilities may demand and receive only just and reasonable charges, and must provide "adequate, efficient, just and reasonable service" in a way that promotes the "safety, health, comfort, and convenience of [their] patrons, employees and the public." Pub. Util. Code § 454 prohibits public utilities from making rate changes until they have made a showing before the Commission and the Commission has made a finding that the new rates are justified. Responsibility for fixing rates is placed with the Commission, as "the primary purpose of the Public Utilities Act is to insure the public adequate service as [just and] reasonable rates without

⁹ See Administrative Law Judge's Ruling Regarding Motion to Reopen the Record dated December 23, 2022.

¹⁰ All references to Rules are to the Commission's Rules of Practice and Procedure.

discrimination....”¹¹ Further, California has long recognized that “the commission has the power to prevent a utility from passing on to the ratepayers unreasonable costs for materials and services by disallowing expenditures that the commission finds unreasonable.”¹² Accordingly, our task is to determine what is just and reasonable, and disallow costs that are found to be unjust or unreasonable.

4. Components of Revenue Requirement

In its application, Volcano seeks a 60.49 percent increase¹³ over the rate base established in Volcano’s last rate case, which it says is driven by the critical need for additional investment in the multi-use network to ensure long-term reliability and advance the broadband capabilities of the network to meet current and foreseeable broadband speed requirements. Volcano is pursuing plant additions to achieve a Fiber to the Premises (FTTP) architecture, which it asserts will be required for Volcano to meet the Federal Communications Commission (FCC) speed Standard of 25 Megabits per second (Mbps) download and 3 Mbps upload throughout its service territory, and to position the company to meet anticipated 100 Mbps standards and beyond.¹⁴

Volcano’s proposed rate design includes the five categories of regulated revenue used in intrastate ratemaking, consistent with Commission precedent over the past three decades: (1) \$3,277,845 in local network services revenue

¹¹ Pacific Tel. & Tel. Co. v. Public Utilities Com. (1950) 34 Cal.2d 822, 826 [215 P.2d 441] (citations omitted).

¹² Pacific Tel. & Tel. Co. v. Public Utilities Com. (1965) 62 Cal.2d 634, 647 [401 P.2d 353, 361]. (See, Pub. Util Code § 728.)

¹³ See Application at 3. Volcano’s revenue requirement and rate design were last examined in 2015 and 2016 with reference to a test year of 2017.

¹⁴ See Application at 4.

from Volcano's end user customers based on anticipated demand at current rates; (2) \$526,979 in intrastate switched and special access; (3) \$2,227,988 in High Cost Loop Support (HCLS);¹⁵ (4) \$69,216 in miscellaneous revenues classified as intrastate; and (5) \$5,647,436 in CHCF-A funds, prior to applying broadband imputation.¹⁶

As Volcano correctly notes, revenue requirement is a measurement of cost, reflecting the amount that a telephone corporation requires in order to recover its "reasonable expenses and tax liabilities and earn a reasonable rate of return on its rate base."¹⁷ In the case of small telephone corporations such as Volcano, the Commission has stated that rate base means the value of plant and equipment that is reasonably necessary to provide regulated voice services and access to advanced services, with the small telephone company entitled to a fair opportunity to earn a reasonable rate of return on that value.¹⁸ The Commission will evaluate the operating expenses, including taxes and a fair return on the company's investments – which are determined by multiplying its authorized rate of return by the value of property devoted to public use.

4.1. Local Network Services/Operating Revenues

Volcano proposes an increase of \$1.00 to its basic residential and business rates (i.e., raising basic residential rates to \$25.00 and business rates to \$35.00) for Test Year 2023 in its application. Volcano does not propose higher increases

¹⁵ See Volcano Reply Brief, Appendix A. Volcano updated the HCLS amount to reflect the actual figure released by NECA in October 2022.

¹⁶ See Application at 4, updated to reflect Volcano Reply Brief, Appendix A, dated October 10, 2022.

¹⁷ See Pub. Util. Code Section 275.6(b)(5) and Volcano September 12, 2022 Opening Brief at 15, citing *Calaveras Telephone Co. v. Pub. Util. Comm'n*, 39 Cal.App.5th 972, 976 (2019).

¹⁸ See Pub. Util. Code Section 275.6(b)(2).

because it contends that its residential and business customers are struggling to survive in poor economic conditions due to the pandemic. Volcano has concern that a higher increase would drive significant numbers of customers to leave its network, thereby putting further rate pressure on customers who remain and requiring more funding support from CHCF-A.¹⁹

Cal Advocates proposes to increase basic residential rates by \$3.50 to \$27.50, and to increase business rates by \$4.95 to \$38.95, but would eliminate tariffs for all of Volcano's custom calling and voice mail services and offer them with basic service at no additional cost to the customer.²⁰ Cal Advocates proposed increase in Volcano's residential and business rates are acceptable to Volcano. In its Opening Brief, Volcano expresses that, while it does not entirely agree with Cal Advocates' analysis, it concurs that the increase of basic residential and business rates are reasonable provided that custom calling and voice mail services are included therein.²¹ Although Volcano expresses concerns about the potential impacts of the proposed rate increase on its fixed and lower-income residential customers and its small businesses, it agrees with Cal Advocates that including custom calling and voice mail services will benefit its customers by making these services more streamlined and accessible and providing important public safety benefits in Volcano's largely rural service territory, which is prone to wildfires and severe storms.²² Cal Advocates'

¹⁹ Application at 20-21, Lehman Opening Testimony at 4, 9-10 and 15-18 and Lundgren Opening Testimony at 8-9.

²⁰ See Opening Testimony of Cal Advocates (Ahlstedt at 1-1:18-21). Cal Advocates reasons that the rates it proposes are within the range of reasonableness established by the Commission in D.21-06-004 and are significantly less than rates offered by urban ILECs in California.

²¹ See Volcano Opening Brief at 44.

²² See Volcano Opening Brief at 45.

proposed \$27.50 basic residential rate is below the \$32.50 rate charged by AT&T, is reasonably comparable to rates charged by carriers in urban ILECs areas and furthers the statutory objectives of Pub. Util. Code § 275.6(c)(3).²³

Volcano only offers flat rate basic business service. Cal Advocates' proposed \$38.95 for basic business service is comparable to the basic business rates offered by urban ILECs such as Frontier and Consolidated in California and significantly less than AT&T's prevailing rate. The proposed \$38.95 basic business rate helps align Volcano's business rates with urban business rates, as required by P.U. Code Section 275.6.²⁴

As mentioned above, in its Opening Brief, Volcano did not oppose Cal Advocates' proposal to set Volcano's basic residential telephone rate at \$27.50; business rate at \$38.95, and include all custom calling features and voice mail service at no cost in its basic residential and business service.

We adopt Cal Advocates' proposal to raise the basic residential rate to \$27.50, exclusive of surcharges, fees and taxes.²⁵ This is within the Commission's range of reasonableness, established by D.14-12-084 and updated in D.21-06-004, and is therefore presumptively reasonable. Furthermore, we adopt a basic business rate of \$38.95, exclusive of surcharges, fees, and taxes, which is reasonably comparable to urban ILEC's basic business service rates and satisfies the requirements described in Pub. Util. Code Section 275.6(c)(3).²⁶

²³ See Opening Testimony of Cal Advocates (Ahlstedt at 1-13).

²⁴ See Opening Testimony of Cal Advocates (Ahlstedt at 1-1:20-21).

²⁵ As of May 23, 2022, this would result in an "all-inclusive" basic residential rate of approximately \$38.29.

²⁶ See Opening Testimony of Cal Advocates (Ahlstedt at 1-21).

Neither party submitted evidence to explain why including all custom calling features and voicemail options (at no charge) is necessary for public safety. We find that it is not reasonable to transfer the cost of all custom calling features and voicemail options from a portion of Volcano customers to all California ratepayers.

We have an obligation under Pub. Util. Code § 275.6(c)(7) to ensure that CHCF-A support for Volcano “is not excessive so that the burden on all contributors to the CHCF-A program is limited.” The new residential and business basic service rates will increase Volcano’s Local Revenue by a forecasted \$201,310.00 (even after eliminating charges for some Custom Calling and Voice Mail services) compared to Volcano’s projected Local Revenue at their proposed 2023 rates. Thus, as discussed in section 4.1.1 below, the Commission adopts basic rates that will include the custom calling features that we deem essential to safety at no charge to Volcano customers.

4.1.1. Custom Calling and Voice Mail Services

As noted in Section 4.1 above, we adopt a rate increase of \$3.50 for basic residential service and \$4.95 for basic business service. Volcano and Cal Advocates agree that all Custom Calling and Voice Mail service should be offered at no additional charge to customers within its basic residential and business rate. Custom Calling services includes 66 tariffed business and residential services, such as variations of Call Forwarding, Call Waiting, Three Way Calling, Abbreviated Dialing, Caller ID, Call Return, and Call Rejection, as well as other services that enhance basic service.

We agree partially with Cal Advocates that some Custom Calling features and Voice Mail features have tangible public safety implications for customers. Custom Calling features such as Call Forwarding, Call Waiting and Voice Mail (Economy Mailbox) are especially useful, if not essential, during wildfires when customers may receive multiple calls from family, friends, or emergency services simultaneously. Therefore, those two custom calling features (Call Forwarding and Call Waiting) and Voice Mail (Economy Mailbox) services should be included at no charge for its customers as part of their basic rates.

However, we disagree with Cal Advocates' proposal that ALL Custom Calling features and the different levels/rates of Voice Mail service listed in Volcano's tariff should be included at no charge for its customers as part of their basic rates. For example, we are not persuaded that Caller ID, Three Way Calling, Call Rejection, Call Return, Customer Changeable Abbreviated Dialing, Reverted Ring are ~~non~~-essential Custom Calling features ~~and they do not~~, as no evidence was provided to demonstrate that these features add ~~any~~ value to providing safe and reliable communications services to rural areas. We believe that providing Volcano customers with the "Economy Mailbox" Voice Mail service to record and store voice messages for subsequent playback at no charge to their basic rates is sufficient. ~~It is not necessary for~~ Volcano ~~to~~may provide ~~a higher level of Voice Mail service above~~additional features to its customers beyond the Economy Mailbox Rates ~~(such as Greeting Only Mailbox, Basic Mailbox, Enhanced Mailbox, Premium Mailbox,~~ however these should continue to be offered at an additional charge to ~~their~~ customers ~~at no charge to their basic rates)~~who may desire them.

~~As noted in Section 4.1 above, we adopt a rate increase of \$3.50 for basic residential service and \$4.95 for basic business service.~~ As part of ~~this~~the modest

rate increase that we adopt here, we ~~order~~approve that Volcano include the following custom calling features as part of basic rate for residential service and business service: Call Waiting, Call Forwarding (Variable, Busy, Busy - Extended, and Delayed) and Economy Voice Mailbox services at no charge for its customers. Other Custom Calling Features ~~such as Three Way Calling, Call Rejection, etc.~~ may be offered at additional charge, according to their tariffed rates, should customers desire them.

4.1.2. Subscribership Forecast

Volcano proposes forecasting subscribership by using five years of data – 2016 to 2021 to find a “five year average” change in subscribers.²⁷ However, for 2021, Volcano uses five months of annualized 2021 data in the calculation to estimate subscribership for 2021. It then uses the average to forecast the number of subscribers in 2022 and Test Year 2023.

Cal Advocates proposes to use end of year 2021 subscribership data in the calculation²⁸ to forecast Volcano’s Test Year 2023 subscribership. It argues that using actual 2021 subscriber data, instead of five months of annualized data, will provide a more accurate forecast. Subscribership forecasts impacts revenue forecasts and, in turn, potential contributions from the CHCF-A.

We are persuaded that Cal Advocates’ proposal is correct. Using actual 2021 subscribership data is a reasonable and more favorable basis upon which to forecast TY 2023 subscribership than using Volcano’s five months of “annualized” 2021 data.

At current rates, calculating Volcano’s TY 2023 subscribership using actual 2021 subscribership data results in \$86,979 less revenue for basic residential

²⁷ See Opening Testimony of Chad Duval at 56, lines 17-21.

²⁸ Five-year average

service, but \$13,872 more revenue for basic business service in TY 2023. At current rates, this ultimately provides Volcano with \$73,104 less revenue for TY 2023, which would have been an unexpected shortfall had Volcano used its original forecasting methodology. Therefore, the five-year historical subscriber forecast should use actual 2021 subscribership number to forecast TY 2023 subscribership.²⁹

4.2. High Cost Loop Support

The parties present a common proposal for Volcano's HCLS calculation, which is to use the figure from NECA's anticipated October 2022 "submission of information" as the HCLS amount in the 2023 test year rate design.³⁰ The October 2022 HCLS figure is \$2,227,988, which will be used to calculate CHCF-A subsidies for TY 2023.³¹

4.3. Miscellaneous Revenues

Cal Advocates argues that the Commission should clarify its reporting requirements for Non-Regulated Miscellaneous Revenues.³² In D.21-06-004, we determined that the standards set forth in the Federal Uniform System of Accounts, 47 C.F.R. Section 32.5200 Miscellaneous Revenue and NECA Reporting Guideline 8.3 should be applied in GRCs such as this regarding the reporting and treatment of miscellaneous revenues, including revenues from licenses, leases, and other uses, and small ILECs such as Volcano must report all

²⁹ See Opening Testimony of Cal Advocates (Ahlstedt at 1-1:23-24).

³⁰ See Cal Advocates Opening Brief at 21; Volcano Opening Brief at 46 and Volcano Amended Reply Brief at 20-21.

³¹ See https://www.neca.org/docs/default-source/public---usf/current-results/2022/appendixe-2022.pdf?sfvrsn=c3881dc1_2

³² See Opening Brief of Cal Advocates at 22-23.

regulated and non-regulated miscellaneous revenues in their GRC applications, with regulated licensing and leasing revenues accounted for using one of the two options in NECA Reporting Guideline 8.3 and non-regulated licensing, leasing, and other use revenues disclosed.³³ Volcano responds to Cal Advocates that its miscellaneous figures are complete and undisputed and within the scope of the applicable federal rule³⁴ and that no clarification is needed and that, in any event, it would be improper to do so here. We agree that a GRC decision for a single company is not the proper place to clarify this reporting requirement.

5. Expenses

Volcano summarizes computation of its “revenue requirement” as:

Revenue Requirement = Operating Expenses + (Cost of Capital x Rate Base) + Tax³⁵

Volcano acknowledges that the Commission in D.21-06-004,³⁶ directed small independent telephone corporations to “adhere to the FCC standards for corporate expenses and operating expense limits in general rate cases”³⁷ and contends that they correctly implemented the operating expense limits.

5.1. Operating Expenses

Operating expenses include four major expense groups: plant specific operations, plant non-specific operations, customer operations, and corporate operations (corporate expenses). During the Commission’s GRC review process, staff examines all aspects of operating expenses. In D.21-06-004, the Commission explained that it uses FCC’s operating expense caps as a rational mechanism for

³³ D.21-06-004 at 19-20 and OP 4 at 42.

³⁴ See Volcano Opening Brief at 47 and Volcano Amended Reply Brief at 19-20.

³⁵ See Application at 11.

³⁶ See Application at 11, citing D.21-06-004 at 43, OP 7.

³⁷ See “Decision Addressing Select General Rate Case-Related Matters Of The Small Incumbent Local Exchange Carriers,” dated June 3, 2021 in Rulemaking (R.) 11-11-007.

calculating and determining a reasonable amount of operating expenses for carriers drawing from the CHCF-A program. The Commission noted that the FCC uses its operating expense cap analysis to determine the level of HCLS, and that the financial data used to determine federal loop support is similar to the type of information the Commission uses for its GRC review and analysis and can be used to derive intrastate operating expenses.³⁸ NECA calculates the FCC's operating expense cap for each carrier by using a regression model, which generates an annual operating expense per location plus 1.5 standard deviations (defined as the mean standard error of the regression) multiplied by the number of locations. The regression model is based on housing units (locations) and density and is described in detail in 47 C.F.R. Section 54.303(a)(1) of the FCC's rules.

5.1.1. Corporate and Operating Expense Caps

In D.21-06-004, the Commission affirmed the use of the FCC's corporate expense cap mechanism for calculating and determining a reasonable level of corporate expenses for telecommunications carriers drawing from CHCF-A.³⁹ The corporate expense cap is calculated based, in part, on the number of active loops and inflation factors.⁴⁰ All corporate expenses under the FCC corporate expense cap are considered reasonable; however, expenses over the cap are considered unreasonable and not eligible for recovery.⁴¹ The Commission explained that its intent in adopting the FCC's corporate expense for small

³⁸ See D.21-06-004 at 26.

³⁹ See D.21-06-004 at 23.

⁴⁰ Volcano forecasts 9,620 eligible loops while Cal Advocates forecasts 9,510.

⁴¹ See D.21-06-004 at 24, where the Commission eliminated the rebuttable presumption previously allowed in D.14-12-084 and clarified that rate case litigation expense is subject to the corporate expense cap and must be recorded in FCC Account 6720.

telecommunications carriers was to determine how the CHCF-A program can more efficiently and effectively meet its stated goals of providing affordable, widely available, safe, reliable and high-quality communications services for rural areas of the state. The Commission stated that adopting a uniform standard for determining a reasonable level of corporate operations expenses for carriers receiving subsidies from the CHCF-A program allows the CHCF-A program to achieve its goals while ensuring that the level of support is not excessive or wildly disparate across companies and avoids imposing an undue burden on California ratepayers who contribute to the fund.⁴²

Volcano argues that the Commission should not require small independent telephone corporations to adhere to FCC standards for operating expense limits in their General Rate Cases, reasoning that federal restrictions on recoverable expenses were not designed to apply to intrastate operations, and that their imposition on intrastate expenses results in arbitrary exclusions of expenses that are necessary for Volcano to provide regulated telephone service in California. Nonetheless, Volcano indicates that it has calculated its corporate expenses and overall operating expenses subject to the limitations set forth in D.21-06-004, as expenses above those limits are to be deemed unreasonable.⁴³

5.1.2. Volcano's Proposed Corporate and Operating Expenses

As noted above, the Commission utilizes the NECA number⁴⁴ to determine the inflation factor applicable to Volcano's corporate and operating expenses and to determine whether Volcano's proposed corporate and operating expenses are

⁴² D. 21-06-004 at 23, fn 62 citing D.14-12-084 at 28.

⁴³ See Application at 12.

⁴⁴ See 47 C.F.R. § 54.1305

within the FCC corporate and operating expense caps adopted in D.21-06-004. Volcano states that it calculated its corporate expenses and overall operating expenses in accordance with the Commission's "corporate expense cap" and "operating expense limitations."

Volcano states that while its intrastate corporate expenses for 2023 are anticipated to be \$2,092,303, the FCC corporate expense cap restricts the recoverable portion of those expenses.⁴⁵ Cal Advocates calculates Volcano's total corporate expense cap amount to be \$2,164,617, restricting the recoverable intrastate portion of those expenses to \$1,440,395, and recommends adoption of these amounts. Volcano's intrastate corporate expenses for 2023 (\$1,493,482) exceeds Cal Advocates proposed corporate expense cap.

Volcano projects its actual intrastate operating expenses for 2023 to be \$5,385,012. It notes that its total operating expenses are well below the operating expense cap limitation, so they are unaffected by the limitation.⁴⁶

Volcano estimates its operating expenses by applying Gross Domestic Product Consumer Price Index (GDP-CPI) and Employee Cost Index (ECI) factors projected by the Congressional Budget Office (CBO) to 2021 data.

Cal Advocates uses NECA GDP-CPI factors for 2021-2023 which appear in the Department of Commerce's reports – a source approved by the Commission and accepted by the FCC.⁴⁷ Cal Advocates recommends that the Commission adopt an operating expense cap of \$8,999,561⁴⁸ and an operating expense budget

⁴⁵ See Application at 12, Duval Opening Testimony at 32-33 as updated by Volcano Amended Reply at 14.

⁴⁶ *Id.* Application at 12, citing Duval Opening Testimony at 38, Exhibit CD-1 (Expense Forecast Model, Operating Expenses (2021 through 2023) and Volcano Amended Reply Brief at 14.

⁴⁷ See Opening Testimony of Cal Advocates, Bixia Ye at 1-2 and 1-3.

⁴⁸ See Opening Testimony of Cal Advocates, Bixia Ye at 2-6.

of \$5,098,183,⁴⁹ which Cal Advocates calculates by using the most recent 2021 data and NECA's inflation factors of 1.013 to adjust the 2021 amount to the 2022 level and 1.042 to adjust the 2022 amount to the 2023 level.

The difference between Volcano's and Cal Advocates' estimates of operating expenses is primarily due to the difference in the GDP-CPI and the ECI inflation factors that each uses.

5.1.3. Discussion

We adopt the Cal Advocates' proposed intrastate corporate expense cap amount of \$2,164,617 and operating expense cap amount of \$8,999,561 for Test Year 2023.

Volcano explained that it used the CBO's projected factors for 2021 through 2023 because NECA GDP-CPI factors for years beyond 2020 were not available. However, we question the validity of Volcano's claim that NECA inflation factors were not available, when Cal Advocate's witness used NECA and Department of Commerce published GDP-CPI inflation factors for 2021-2023.

We agree with Cal Advocates that only the GDP-CPI from the Department of Commerce should be used as the inflation factor for calculating the corporate expense cap, operating expense cap and operating expenses.

Volcano calculated its corporate expense cap limit based on a loop count based on their own growth projections and the CBO's GDP-CPI inflation factors.⁵⁰ Cal Advocates calculated a corporate expense cap using an estimated loop count from an autoregressive model based on twelve years of data, and

⁴⁹ See Opening Testimony of Bixia Ye, at 2-1 and Opening Brief of Cal Advocates, Summary of Recommendations at vi.

⁵⁰ See Duval Opening Testimony at 32.

NECA GDP-CPI inflation factors.⁵¹ The loop count estimate from Cal Advocates relies on data over a longer time period, and is a more reliable estimate of a future loop count than Volcano's estimate. Furthermore, Cal Advocates used the approved NECA GDP-CPI inflation factors to calculate the corporate expense cap. Therefore, we adopt Cal Advocates' recommendations concerning the intrastate corporate expense cap for Volcano TY 2023.⁵²

Both Volcano and Cal Advocates calculated an operating expense cap above their respective estimated TY 2023 operating expenses for Volcano. Cal Advocates notes that, based on D.21-06-004, the lesser of the calculated cap or total operating expenses, becomes the operating expense cap. Therefore, in adopting Cal Advocates' estimate of Volcano's operating expenses, the total operating expenses are within the calculated operating expense cap.

5.2. Depreciation Expense

Volcano proposes \$3,912,351 for depreciation expense (\$2,743,008 after accounting for interstate and intrastate jurisdiction) in its TY 2023 revenue requirement, based upon six fully depreciated plant accounts by December

⁵¹ See Opening Testimony of Cal Advocates, Bixia Ye 1-7 through 1-12.

⁵² This conclusion is unaffected by the August 11, 2022 letter from NECA (NECA letter) that the ALJ permitted Volcano to add to the record by ruling dated December 23, 2022. As stated in footnote 1 of the NECA letter, "the FCC has authorized NECA to interpret FCC rules where necessary" and NECA does so by applying the Department of Commerce's GDP-CPI in calculating corporate and operating expense limits. Previous Commission decisions have attempted to align the calculation of the operating and corporate expense limits to FCC standards but also to create efficiencies in the GRC process. For example, in D.21-06-004 at 27, the Commission directed the Small ILECs to use "NECA's inflation factor" to true-up operating expense cap limits. Volcano's corporate and operating expenses caps are part of its total operating expenses, therefore, the inflation factors used by Cal Advocates for calculating TY 2023 operating expenses and caps is consistent with both NECA's interpretation of the FCC rules for calculating caps, and the Commission's direction to small ILECs in D.21-06-004. Therefore, admitting the NECA letter to the evidentiary record does not change the Commission's determination of the total operating expense amount.

2022.⁵³ Cal Advocate contends that the FCC requires depreciation expense to be calculated by applying an annual depreciation percentage rate to the annual average balance of the associated category of plant.⁵⁴ Citing 47 C.F.R. § 32.9000, Cal Advocates notes that depreciation percentage rates are computed in conformity with a group plan of accounting, which accrues depreciation charges upon the basis of the original cost of all property included in each depreciable plant account, using the average service life. Upon retirement of any depreciable property, its cost is charged to the depreciation reserve - whether or not the particular item has attained the average service life.⁵⁵

Volcano used a straight line, remaining life methodology to depreciate its plant accounts and proposed a depreciation rate for six fully or nearly fully depreciated accounts, each based on the average service life, *i.e.*, Average Service Life.⁵⁶ In Volcano's depreciation study, these six plant accounts were assigned an average service life between 8 and 25 years⁵⁷ as follows:

- (1) Furniture - 14 years
- (2) Common Equipment - 8 years
- (3) Radio Systems - 8 years
- (4) Non-Metallic Aerial Cable - 20 years
- (5) Non-Metallic Buried Cable - 25 years
- (6) Metallic Buried Cable - 25 years

⁵³ See Opening Testimony of Cal Advocates, Bixia Ye at 3-3.

⁵⁴ *Id.*

⁵⁵ *Id.* at fn 91.

⁵⁶ *Id.* at fn 97, citing Opening Testimony of Chad Duval at 42.

⁵⁷ *Id.* at fn 98, citing Duval workpaper "Volcano CD-2 Depreciation Study" column (f) "Avg Serv Life" in tab titled "annual accrual".

Cal Advocates proposes a three-step methodology to determine the depreciation rates for these six accounts for TY 2023 through 2027.⁵⁸

Volcano indicates that it generally agrees with Cal Advocates' methodology but contends that Cal Advocates' analysis may not use sufficient historical data to produce an appropriate result for many accounts. Noting that Cal Advocates proposal will not have any impact on TY 2023 depreciation expense, but simply adjusts depreciation rates that will apply to theoretical plant additions that may or may not occur during the period from 2024 through Volcano's next GRC in 2028, Volcano does not oppose the adoption of Cal Advocates' depreciation rates.⁵⁹

Therefore, we adopt Cal Advocates proposals for the six plant accounts, and the TY 2023 depreciation expense of \$2,743,008 proposed by both Cal Advocates and Volcano.⁶⁰

5.3. Taxes

A small telephone corporation's revenue requirement must include a reasonable forecast of the tax liabilities that it expects to experience during the test year.⁶¹ Volcano estimates its 2023 intrastate income tax liabilities to be \$751,939⁶², based, in part, on net income and both state and federal tax rates⁶³ and the amortization of excess deferred income taxes.⁶⁴ Other tax components

⁵⁸ *Id.* at 3-4 to 3-6.

⁵⁹ *See* Rebuttal Testimony of Chad Duval at 28.

⁶⁰ *See* Volcano Opening Brief at 38.

⁶¹ Pub. Util. Code § 275.6(b)(5).

⁶² \$751,939 is the sum of the Income Tax (State and Federal – Line 2.d) and Amortized Excess Deferred Income Tax (Line 2.c(2)).

⁶³ *See* Application at 18, citing 26 U.S.C. § 11 (21% federal corporate tax rate); Calif. Rev. & Tax Code § 23151(e) (8.84% California corporate tax rate) and Volcano Reply Brief at Appendix A for calculated tax figures.

⁶⁴ Excluded from this section is a discussion on parties' dispute on Amortized Excess Deferred Income Taxes (AEDIT). While AEDIT is a component of expenses, it is a calculation based on

include property taxes. To reach its intrastate tax liabilities figure, Volcano also assumes an intrastate rate base of \$28,497,714 and a cost of capital figure of 9.12 percent (assigned to Volcano pursuant to D.16-12-035), to reach a figure of \$2,598,991 in intrastate net income during 2023.⁶⁵ The parties further stipulated that once the Commission subsequently adopts a cost of capital decision applicable to each of the Small LECs pursuant to the consolidated application filed September 1, 2022,⁶⁶ Volcano will determine whether there is an adjustment to the 9.12 percent cost of capital utilized in this proceeding. If an adjustment is required, Volcano will implement the adjustment and update the revenue requirement and CHCF-A subsidy adopted in this proceeding through an advice letter filed with the Commission's Communication Division.⁶⁷

While a potential adjustment to the cost of capital in the future may affect the calculation of Volcano's tax liabilities, the TY 2023 tax liabilities for Volcano are based on the current cost of capital of 9.12 percent and calculated based on the revenues and expenditures also adopted in this Decision.

Income Taxes (AEDIT). While AEDIT is a component of expenses, it is a calculation based on the Rate Base component Unamortized Excess Deferred Income Tax Basis, which is discussed in Section 6.3 below.

⁶⁵ See February 3, 2022, Motion to Defer Review Cost of Capital in this proceeding, indicating that Volcano, along with the other Small LECs, will file a consolidated application addressing the cost of capital by September 1, 2022. Cal Advocate stipulated that the 9.12 percent cost of capital cost should be utilized to calculate Volcano's return on rate base in this proceeding.

⁶⁶ See A.22-09-003 "Application of Calaveras Telephone Company (U1004C) Cal-Ore Telephone Co. (U1006C) Ducor Telephone Company (U1007C) Foresthill Telephone Company (U1009C) Kerman Telephone Co. (U1012C) Pinnacles Telephone Co. (U1013C) The Ponderosa Telephone Co. (U1014C) Sierra Telephone Company, Inc. (U1016C) The Siskiyou Telephone Company (U1017C) Volcano Telephone Company (U1019C) for a Determination of Applicants' Cost of Capital for Ratemaking Purposes."

⁶⁷ See Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) dated March 2, 2022 at 3.

5.3.1. Property Tax Calculation

Volcano estimates property taxes for 2021 through 2023 by dividing the prior year property tax expense by the Telecommunications Plant in Service (TPIS) of prior years.⁶⁸ This includes an estimated growth factor and average annual TPIS.

Cal Advocates reviewed Volcano's projected property tax for TY 2023 utilizing the California Board of Equalization (BOE) methodology. Accordingly, Cal Advocates does not object to Volcano's property tax calculation, but the Results of Operations Table shows a minor calculated difference⁶⁹.

While this calculated difference is minor, we find it reasonable to accept Cal Advocates' property tax figure for Volcano for 2023 since it more closely aligns with the BOE's property tax methodology. Thus we adopt Cal Advocate's proposal of \$262,256 in property taxes.

5.3.2. Effect of Broadband Imputation on Tax Calculation

As discussed below, in D.21-04-005 (affirmed by D.21-08-042), the Commission determined that positive net revenue associated with retail broadband services provided by the Small LEC or an Internet service provider (ISP) affiliate of that Small LEC (for the calendar year preceding the application filing) shall be imputed in the determination of CHCF-A support.

Volcano and Cal Advocate disagree about the calculation of taxes related to imputed broadband revenue.

Volcano contends that, after determining the net-to-gross CHCF-A draw, it should subtract broadband net revenue from the calculated draw (i.e., Volcano

⁶⁸ See Opening Testimony of Chad Duval at 45.

⁶⁹ See Cal Advocate Opening Testimony of Bixia Ye at 4-1 and D-1.

calculates income taxes before imputing broadband revenues). Volcano contends that its method is appropriate because broadband imputation is a dollar for dollar decrease and part of rate design, not the revenue requirement.⁷⁰

Cal Advocates argues that Volcano's methodology overstates its tax liability. Imputed net retail broadband revenues are already "net" of state and federal income taxes and should be excluded from taxable income in Volcano's Results of Operations because including the imputation of net positive retail broadband revenue overstates Volcano's state and federal income tax expenses, which increases Volcano's revenue requirement.⁷¹

We agree with Cal Advocates reasoning that, if taxes are estimated on a CHCF-A draw that is calculated before broadband revenues are imputed, tax liability will be overstated. Including the imputation of net positive retail broadband revenue overstates Volcano's state and federal income tax expenses, which increases Volcano's revenue requirement. Using Cal Advocate's methodology, the Commission adopts \$268,048 in total income tax.

6. Rate Base

In D.21-06-004, the Commission determined that, to support transparency and to ensure that cost recovery is appropriate, small telephone companies should use the rate base amount from NECA's latest cost study as a starting point of a rate base for each GRC Test Year. The Commission reasoned that, because NECA's rate base figures are at least two years behind a test year, adjustment could be made for new additions, closure of plants, or other changes that have occurred since the year of the NECA cost study. For this reason, the Commission concluded that the NECA cost study is a reasonable method for

⁷⁰ See Application at 25-26.

⁷¹ See Cal Advocates Opening Brief at 5-6.

forecasting GRC Test Year rate base because the recorded NECA cost study rate base amounts are comparable to the GRC forecasted amounts, with an average difference of 1.77%. The NECA cost study includes total company rate base, which is then allocated between the intra- and the interstate jurisdictions. Small telephone companies were directed to allocate the same amount of rate base to the intrastate jurisdiction as shown in the NECA cost study. This approach would ensure proper jurisdictional allocation. The NECA cost study also incorporates the most recent recorded level of plant additions and depreciation, which will help streamline the GRC process. Therefore, small telephone companies must submit their most recent NECA cost study, including all data relating to the intrastate rate base, with their GRC application. Any changes to rate base“ including plant additions or closures” shall be subject to a reasonableness review.

6.1. Plant Construction Expense

Volcano seeks to include eleven broadband deployment projects, that it says it will complete by December 2023,⁷² as plant-in-service additions. It contends that the projects are necessary to satisfy forward-looking scalability to enable safety, ensure reliable voice service, meet an evolving level of customer demand, comply with regulatory requirements, and fulfill state universal service policy objectives.⁷³ Volcano plans to pursue significant fiber-focused upgrades to its network, explaining that fiber to the premises (FTTP) is necessary to provide universal broadband access with forward-looking speed capabilities. Cal Advocates accepted Volcano’s proposed amounts for Telephone Plant in Service,

⁷² Testimony of Lundgren, Hearing Transcript, Vol.2 at 109, ln. 9-17 at 110, ln. 11-24.

⁷³ See Application at 15.

Telephone Plan Under Construction, and Materials and Supplies.⁷⁴ Thus we are adopting Volcano's proposed amounts.

6.2. Deferred Tax Calculation

Volcano computes its estimated deferred tax for TY 2023 using data for 2021 (the last year available) for estimating the TPIS and 2023 taxes, according to what they say is the Commission's long-established methodology. Volcano calculated deferred income taxes as a percentage telecommunications plant in service. Using this approach, Volcano calculates an intrastate deferred tax figure of \$1,924,948.⁷⁵

Cal Advocate argues that, to forecast Volcano's deferred income tax for TY 2023, the Commission should use the average percentage of the most recent four-year's annual average deferred income tax to the average net balance of Plant in Service account, excluding the value of land account, from 2018 through 2021.⁷⁶ It contends that land is never depreciated and should be excluded from the average Plant in Service figure for the purpose of calculating deferred income tax.⁷⁷ Cal Advocates calculates an intrastate deferred tax of \$2,716,591 for TY 2023.

We agree with Volcano that Cal Advocates has not provided sufficient evidence to deviate from Commission precedent here. Thus, the Commission has applied Volcano's methodology and deferred tax amount of \$1,924,948.

6.3. Unamortized Excess Deferred Taxes

⁷⁴ See Cal Advocates Opening Brief, Attachment A.

⁷⁵ See Volcano Reply Brief, Appendix A.

⁷⁶ See Cal Advocate Opening Brief at 16; Opening Testimony of Bixia Ye at 4-3 to 4-5.

⁷⁷ See Cal Advocate Opening Brief at 16; Opening Testimony of Bixia Ye at 4-3 to 4-5.

The Tax Cuts and Jobs Act (TCJA) reduced Volcano/s federal tax rate beginning January 1, 2018. Both parties agree that Volcano has excess deferred tax reserves due to the tax savings from the TCJA and on the general methodology for calculating the Unamortized Excess Deferred Tax Balance (UEDTB): the average of the beginning balance (total amount of the liability) and the ending balance (remaining unamortized amount of the liability). Additionally, both parties contend that the beginning balance is \$923,196.⁷⁸ Volcano states that the ending balance should be \$197,869, the balance after 5 years because that is the length of time before the next GRC. Volcano argues that Cal Advocates' proposed UEDTB balance significantly overstates the impacts on Volcano's rate base, and would not produce sufficient CHCF-A support for Volcano to recover its costs over the five-years until its next GRC.⁷⁹ Thus Volcano proposes UEDTB of \$560,532.⁸⁰ However, Cal Advocates contends that the ending balance should be the amount at the end of 2023 and also proposes to round the remaining life down to 6 years from 6.364 because CHCF-A support is determined annually. Cal Advocates argues that Volcano should return excess tax reserves of \$153,866 per year to ratepayers over a six-year period beginning with TY 2023. Thus, Cal Advocates proposes UEDTB of \$846,262.⁸¹

⁷⁸ See Exhibit VTC-07(C), Rebuttal Testimony of Chad Duval- Confidential Version, at 36-37 and PAO-01-C, Opening Testimony of Bixia Ye, at 4-5 to 4-7.

⁷⁹ See Volcano Reply Brief at 10, fn 55 (citing Exh. VTC-07 Duval Rebuttal testimony at 36:13-16), where Mr. Duval explains, "[t]he more appropriate approach to establishing a liability that will amortize throughout the period that the CHCF-A will be in effect is to set the beginning balance to the total amount of the liability, in this case \$923,195, and the ending balance to the unamortized amount of the liability at the end of the five-year period that the CHCF-A will be in effect, in this case \$153,866."

⁸⁰ See Exhibit VTC-07(C), Rebuttal Testimony of Chad Duval- Confidential Version, at 36-37.

⁸¹ See Opening Testimony of Bixia Yee at 4-6 to 4-9.

The Commission agrees with Cal Advocates, that the ending balance should be the remaining amount at the end of 2023. The rate base is supposed to estimate the actual rate base at the end of Test Year 2023, thus it is appropriate that the ending balance be after one year of amortization. However, the Commission rejects Cal Advocates' proposal to round the remaining life and instead recommends that the Commission use the remaining life of 6.364 as proposed by Volcano. Cal Advocates does not provide a compelling reason to round since the Commission does not adopt a new RO table or modify the rate base for companies in between GRCs. Thus there is no reason to round the amortization period to correspond with adoption of annual CHCF-A support amounts. Therefore, the Excess Deferred Tax Balance should be reduced by \$145,065⁸² per year and the Commission adopts UEDTB of \$850,663 for TY 2023.⁸³

7. The California High Cost Fund-A (CHCF-A) Subsidy

Public Utilities (Pub. Util.) Code Section 275.6 requires the Commission to minimize telephone rate disparities between rural and metropolitan areas to keep rates affordable in areas with lower population densities. The CHCF-A subsidy provides supplemental revenues to small rural telephone companies. Without this subsidy, telephone companies would have to charge such a high fee for basic exchange access line service rates in rural areas, that universal service access for residents of those areas would be threatened. The CHCF-A subsidy supports small independent telephone companies (including Volcano) to allow

⁸² Therefore, the amount of Amortized Excess Deferred Income Tax (Expense, Line 2.c.(2)) for TY 2023 should also be \$145,065.

⁸³ This calculation uses beginning balance of \$923,195 and Average Remaining Asset Life of 6.364 years. The balance is reduced by \$145,065 per year, thus the balance at the end of TY 2023 is \$778,130. Averaging the starting and ending balances results in UEDTB of \$850,663.

rural residents to stay connected to essential services to maintain public health and safety.⁸⁴ The Commission and the State of California have deemed such access to reliable, affordable telephone service to be critical to public safety within rural communities, and beneficial to the state as a whole.

The CHCF-A program is funded by a surcharge assessed on revenues collected from end users of intrastate telecommunications services. The Commission periodically reviews the program fund levels and adjusts the surcharge rate to ensure the program is sufficiently funded. All telephone corporations are required to assess the CHCF-A surcharge remittance rate of 0.70 percent. D.22-10-021 adopted a new surcharge methodology to fund California's Universal Service Public Purpose Programs (PPP). Effective April 1, 2023, a customer's bill will show a single consolidated surcharge amount for all six PPPs and the CHCF-A fund will receive 7.54 percent of the total surcharge amount of \$1.11 per access line.

In administering the CHCF-A program, the Commission must "ensure that rates charged to customers of small independent telephone corporations are just and reasonable and reasonably comparable to rates charged to customers of urban telephone corporations."⁸⁵ In the Commission's D.14-12-084 and updated

⁸⁴ Pub. Util. Code § 275.6(c)(1) authorizes the Commission to set rates charged by small telephone companies in accordance with Sections 451, 454, 455 and 728.

⁸⁵ Pub. Util. Code § 275.6(c)(3). Historically, "comparable" has meant that target rates for residential customers are no more than 150 percent of basic service rates for California's urban telephone customers. The "150 percent formula" was originally established in D.91-09-042, and the formula has been used in part to evaluate the reasonableness of rates charged to customers. In D.10-02-016, the Commission modified the 150 percent formula so that the small Incumbent Local Exchange Carriers (ILECs) were no longer required to charge 150 percent of the basic urban rate to qualify for CHCF-A support, instead setting the basic service rate for residential customers at \$20.25 per month. See D.10-02-016, Ordering Paragraph 3.

in D.21-06-004, in its CHCF-A rulemaking proceeding, the Commission deemed presumptively reasonable and non-rebuttable a small telephone company rate range of \$30.00 to \$40.00, for basic residential service, inclusive of additional charges such as federal and state fees and surcharges.

Volcano requests a CHCF-A draw of \$4,055,262 for Test Year 2023.⁸⁶

7.1. Constitutionality of Commission's CHCF-A Program

Volcano's contention, that "some of the Commission's regulations materially conflict with constitutional and statutory standards,"⁸⁷ lacks merit.

Volcano argues that some of the regulatory requirements applicable to CHCF-A (pursuant to Phase 2 of the CHCF-A rulemaking⁸⁸) conflict with constitutional requirements, as they artificially understate Volcano's revenue requirements and institutionalize shortfalls in the revenue needed to fulfill Volcano's revenue requirement. Volcano contends that the Commission's current rules deny Volcano of a reasonable opportunity to achieve earnings needed to provide adequate service to its subscribers, cover its costs and tax liabilities, and fairly compensate its investors.

However, when evaluating Volcano's revenue request, the public interest requires the Commission to consider not only Volcano's ratepayers and customers, but the interests of every carrier that contributes to the CHCF-A from which Volcano is requesting funding. The Commission will assess whether

⁸⁶ Application at 4. Volcano initially requested a draw of \$4,084,629, which it updated to \$4,055,262 in its Reply Brief dated October 10, 2022.

⁸⁷ See Application at 6.

⁸⁸ See Application at 8, where Volcano references the Commission's "Broadband Imputation Decision," D.21-04-005, which authorizes reductions in CHCF-A based on the net profits achieved by ISP affiliates of small independent telephone corporations.

Volcano has justified its revenue proposals, and when it has not, Volcano's proposal must be disallowed.

7.2. Legal and Policy Considerations

In D.21-04-005, the Commission mandated that, in any rate case filed by Volcano or any other small independent telephone corporations (Small LECs) drawing support from the CHCF-A, positive net revenue associated with retail broadband service provided by the Small LEC or an Internet service provider (ISP) affiliate of that Small LEC (for the calendar year preceding the application filing) shall be imputed in the determination of CHCF-A support.⁸⁹ The Commission affirmed its broadband imputation mandate in D.21-08-042, after a group of small LECs and parties to the CHCF-A rulemaking, including Volcano, filed an application for rehearing of D.21-04-005.⁹⁰

7.2.1. Relevance of Retail Broadband Revenues and Quality and Reliability of Broadband Services to CHCF-A

During the pendency of this proceeding, Cal Advocates sought, and Volcano initially refused to provide, information related to the service quality of the broadband service offered by Volcano's ISP over Volcano's broadband capable network. Cal Advocates contends that it has a clear statutory and regulatory right to the information that it seeks under Pub. Util. Code § 275.6(a),

⁸⁹ See D.21-04-005 and D.21-08-042 "the Broadband Imputation Decisions", which were adopted in Phase 2 of the California High-Cost Fund-A (CHCF-A) Rulemaking (R.) 11-11-007, and which include directives regarding the implementation of "broadband imputation" in this and all small LEC general rate cases (GRCs).

⁹⁰ On September 22, 2021, the Small LECs and their affiliate ISPs filed a petition for writ of review of the Broadband Imputation Decisions, challenging the Commission's statutory, constitutional, and jurisdictional bases for imposing the broadband imputation mandate. On January 7, 2022, the Court of Appeal of the State of California in and for the Fifth Appellate District, issued a writ of review (Writ Order) of Commission's D.21-04-005 and D.21 08-042. Oral argument before the Court of Appeal is December 15, 2022.

which gives the Commission regulatory authority to maintain the CHCF-A Administrative Committee Fund program. Cal Advocates reasons that because the Commission is required, when administering the CHCF-A program, to promote customer access to advanced services and deployment of broadband-capable facilities in rural areas that are reasonably comparable to that in urban areas, it is necessary for the Commission to evaluate Volcano's compliance with D. 21-04-0054 and D.14-12-084. Cal Advocates contends that such an evaluation requires it to have sufficient information to conduct a reasonableness review of Applicant's broadband funding requests to support its recommendations to the Commission regarding Applicant's compliance with the relevant subsections of Pub. Util. Code § 275.6. It argued that information about the service quality of the broadband service provided by Volcano's ISP to customers would assist the Commission to understand the service quality customers experience, which in turn directly impacts the broadband connectivity necessary for customers to pursue economic, health, and educational opportunities provided by modern internet access. Cal Advocates argued that to complete such a compliance review, the Commission should have access to documents such as Volcano's ISP affiliate's financial statements, detailed general ledgers, trial balance, and schedules supporting the broadband imputation amount reported to the Commission.⁹¹ Cal Advocates also contended that Volcano should be required to submit annual reports and detailed documents that support its reported broadband revenue imputation amount, which Cal Advocates reasons is useful in an oversight capacity as well as in examination of

⁹¹ Cal Advocates filed a March 11, 2022 Motion to Compel Data Responses by Volcano related to the service quality of the broadband service offered by Volcano's ISP over the Applicant's broadband capable network.

future GRCs to ensure that Volcano's use of CHCF-A subsidies is prudent and consistent with providing safe, reliable service to customers at just and reasonable rates.

Volcano argues that Cal Advocates has no right to information concerning the separate operations of Volcano's ISP affiliate, such as operational data pertaining to the manner in which Volcano's ISP interacts with customers in connection with its provision of unregulated broadband Internet access service. Volcano argues that Cal Advocates' requests reflect an attempt to examine, measure, and regulate the level of service quality that Volcano's ISP provides to its customers, using some of the same metrics that the Commission currently uses to assess service quality for voice customers, which Volcano contends is beyond the Commission's jurisdiction, unrelated to public utility ratemaking, and outside the scope of Volcano's Application.⁹²

To resolve this dispute, the assigned ALJ issued a ruling ordering Volcano to submit data responses for the years limited to 2018-2021, or the period after Volcano's revenue and rate design were last examined.⁹³ We do not find Volcano's arguments convincing. The ALJ reasoned, and we conclude that broadband service quality, and the funding anticipated toward Volcano's proposed broadband infrastructure upgrades, and current and anticipated customer needs, are an appropriate element of its revenue requirement and rate design. Moreover, the ALJ's ruling affirmed D.14-12-084 requirement that the Commission (as part of a small telephone corporation's GRC) consider factors

⁹² See *Volcano's* Opposition to the Motion to Compel dated March 21, 2022.

⁹³ See ALJ's July 19, 2022 Ruling Granting the Public Advocates Office Request for Order Compelling Responses From Volcano Telephone Company.

such as the presence of anchor institutions, network redundancy, public safety and service quality when evaluating broadband-capable network investments.⁹⁴

Using reasoning that we employed to uphold Commission precedent on calculation of taxes, we note that D.21-04-005 and D.14-12-084, represent clear Commission precedent that Volcano should update the Commission on the status of its imputable retail broadband revenues in preparation for Volcano's GRC.⁹⁵ Similarly, the documentation that Cal Advocates identifies is important because they assist the Commission's Communications Division in its evaluation of the reliability and reasonableness of the broadband service that Volcano's affiliate provides.⁹⁶ This information is useful in an oversight capacity as well as in examination of future GRCs to ensure that Volcano's use of CHCF-A subsidies is prudent and consistent with providing safe, reliable service to customers at just and reasonable rates. Although D.21-04-005 states that the amount of imputable broadband revenue remains fixed between Volcano's GRC's, Volcano should continuously update the Commission on the status of its imputable retail broadband revenues in preparation for Volcanos next GRC.

7.2.2. Means Test for CHCF-A

The Commission limits the CHCF-A support to amounts which would provide no more than either: 1) a utility's authorized intrastate rate of return, or 2) the utility's current funding level for the year for which CHCF-A is being requested, whichever is lower. The foregoing is determined by using a "means

⁹⁴ See ALJ's July 19, 2022 Ruling Granting the Public Advocates Office Request For Order Compelling Responses From Volcano Telephone Company.

⁹⁵ See D.21-04-005 at 22.

⁹⁶ See Opening Brief of Cal Advocate at 6, citing Exh. PAO-01, at 2-1. 32 Testimony of James Ahlstedt, Hearing Transcript (Confidential), Vol. 3, at 194-202.

test.”⁹⁷ The means test is based, in part, upon at least seven months of recorded data annualized which can then be compared to the utility’s forecasted intrastate rate of return based upon its adopted results of operations for a particular year.

The CHCF-A support for a utility’s test year⁹⁸ is determined in its GRC decision, and any renewal of the CHCF-A support for subsequent calendar years shall be in accordance with D.91-09-042. The Commission’s recommendation for Volcano’s Test Year 2023 CHCF-A support is \$2,911,734 as reflected in the Results of Operations in Appendix A to this decision. Pursuant to D.91-09-042, “the means test shall not be applied to the determination of a small LEC’s CHCF-A funding level following 12 months after a decision or resolution is rendered by the Commission in a LEC’s general rate review proceeding.”⁹⁹

Commission staff will rely upon the Results of Operations set forth in Appendix A to determine CHCF-A support, as permitted by D.91-09-042. The Results of Operations (Appendix A) shall be adopted for Volcano for all purposes consistent with established and historical GRC processes practiced by all Commission Industry Divisions, including Communications Division.

8. Confidential Testimony and Materials Under Seal

The parties submitted certain reports, exhibits and testimony designated as “confidential.” The marking of these reports, exhibits and testimony as “confidential” is deemed to be a request by each party for leave to file those reports and testimony under seal pursuant to Rule 11.4. The disclosure of

⁹⁷ See D.91-05-016 as modified and clarified by D.91-09-042.

⁹⁸ In small LEC GRC proceedings, the test year is the year immediately following issuance of the Commission’s decision (*e.g.*, 2023 would be the test year for this decision, which is anticipated to be issued in December 2022.)

⁹⁹ See D.91-05-016 as modified and clarified by D.91-09-042, at Ordering Paragraph 2.

confidential reports, materials and recommendations, sensitive financial data, operational and other privileged information could place the moving party in serious disadvantage or at unfair business disadvantage. Accordingly, the requests to place these materials under seal pursuant to Rule 11.4 are granted as set forth in the Ordering Paragraphs below.

Despite this, the figures herein and those on the Intrastate Results of Operations in Appendix A, should be made public and unredacted. Neither Pub. Util. Code § 275.6(e) nor any of the other authorities that Volcano cites¹⁰⁰ warrants their confidential treatment. Volcano argues that § 275.6(e) requires that the Commission keep as confidential “information reflecting revenues derived from the provision of unregulated Internet access service” provided to the Commission.

Volcano claims that net positive broadband revenue imputation, and the CHCF-A support figure which would allow one to determine the net positive broadband revenue imputation figure, represent trade secrets. However, “net positive” reveals nothing about gross revenues, the number of accounts, the cost of providing service, the rates paid by customers, or other similarly protected information. Assuming for the sake of argument that the net positive broadband revenue imputation constitutes a trade secret,¹⁰¹ within the context of this decision, in considering whether it is appropriate to redact any figures, the

¹⁰⁰ Pub. Util. Code § 583; Cal. Gov. Code §§ 6254(k), 6255; Cal. Civ. Code § 3426.1(d); Cal. Evid. Code § 1060. We note that net positive broadband revenue imputation is different from the kind of information contemplated by the statutes. “Net positive” reveals nothing about gross revenues, the number of accounts, the cost of providing service, the rates paid by customers, etc. Further, neither D.21-04-005 nor D.21-08-042 addressed the question of confidentiality.

¹⁰¹ The trade secret privilege is conditional and may be defeated if allowing the privilege will work injustice. (See Cal. Civ. Code § 1060; also D.20-12-021 at 25-26.)

Commission would have to establish that the public interest served by non-disclosure outweighs the public interest served by disclosure.¹⁰²

This GRC decision does not include the disclosure of Volcano's or Cal Advocates' confidential testimony and records (*e.g.*, we do treat as "confidential" the financial statement required by Ordering Paragraph 2 in D.21-04-005).

In its September 12, 2022, Motion for Leave to File Confidential Version of Opening Brief Under Seal, Volcano claimed that release of certain figures could "inform marketing, operational, and build-out strategies by current or potential competitors of Volcano Vision" and that "no countervailing public benefit would accrue from revealing the data." We disagree. Once records are furnished to the Commission, they become public records under the California Public Records Act.¹⁰³

Pub. Util. Code § 275.6(c)(7) requires the Commission to "[e]nsure that support is not excessive so that the burden on all contributors to the CHCF-A program is limited." Transparency requires that the figures contained in the Results of Operations, particularly the adopted CHCF-A support amounts, be disclosed to the public. All California ratepayers contribute to the CHCF-A and if the support amounts remain confidential the public cannot evaluate if the support to any specific company, such as Volcano, is excessive. Furthermore, Small LECs, including Volcano, may request adjustments to their CHCF-A support each year. If the CHCF-A support amount adopted in this or any GRC decision is confidential, then this would be inconsistent with the requirement that an annual support resolution must be released for public comment.

¹⁰² Cal. Govt. Code § 6255(a).

¹⁰³ Cal. Govt. Code §§ 6250, *et seq.*

9. Categorization and Need for Hearing

In Resolution ALJ 176-3497, dated November 18, 2021, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. This decision confirms the categorization.

10. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties on December 30, 2022, in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3. Comments were filed on January 24, 2023. We have reviewed the parties' comments and, where appropriate, have revised the PD.

We note that Cal Advocates' comments address the decision's failure to include all custom calling features within Volcano's basic rates at no charge. Volcano's original application did not propose that all custom calling features should be included in its basic rates. Currently, there are tariffed rates associated with each custom calling feature and customers choose to pay for the features that they want.¹⁰⁴ If we were to adopt Cal Advocates' proposal to include all custom calling features and voicemail options at no charge, the CHCF-A fund would have to increase the amount of support for Volcano to offset the \$201,310 reduction in local revenue for TY 2023.

¹⁰⁴ The rates for custom calling features can be viewed in Volcano's most recent tariff, which is attached as Appendix C. Including all custom calling features and voicemail options within basic rate (at no additional cost to customers) would result in a loss of \$201,310 in local revenue for TY 2023 compared to only including Call Waiting, Call Forwarding (Variable, Busy, Busy - Extended, and Delayed) and Economy Voice Mailbox within basic rate.

11. Assignment of Proceeding

John Reynolds is the assigned Commissioner and Patricia B. Miles is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

~~1.~~

1. The parties stipulated that, pursuant to D.16-12-035, Volcano would utilize a cost of capital figure of 9.12 percent in this GRC.

2. Volcano and Cal Advocates engaged in significant discovery and data exchange, analysis of each other's positions and arguments, and several days of evidentiary hearing.

3. In D.21-06-004, the Commission affirmed the use of the FCC's corporate expense cap mechanism for calculating and determining a reasonable level of corporate expenses for telecommunications carriers drawing from CHCF-A.

4. In D.21-06-004, the Commission determined that the NECA cost study is a reasonable method for forecasting GRC Test Year rate base.

5. In D.21-04-005, the Commission mandated that in any rate case filed by small LECs drawing support from the CHCF-A, positive net revenue associated with retail broadband service of the ISP affiliate of the small LEC shall be imputed in the determination of CHCF-A support.

6. Based on our review of all the information in the record, we can independently determine and adopt the figures contained in the Results of Operations for Volcano for the TY 2023 (Appendix A).

7. Appendix A reflects an overall revenue requirement of \$10,798,962 for Volcano for TY 2023.

8. Volcano's TY 2023 CHCF-A support of \$2,911,734 reflected in Appendix A has been calculated in accordance with D.91-05-016 as modified by D.91-09-042.

9. It is appropriate to apply NECA's most recent inflation factors to adjust Volcano's proposed corporate operations expenses of \$9,142,185 to \$8,226,431.

10. Using Volcano's remaining asset life of plant-in-service of 6.364 years, Volcano's UEDTB balance as of TY 2023 is \$850,663, which will be amortized by \$145,065 per year.

11. An increase in Volcano's basic residential rates to \$27.50, exclusive of surcharges, fees and taxes, if approved, is within the \$30 to \$40 range that the Commission deemed just and reasonable for small telephone corporations in D.21-06-004.

12. An increase in Volcano's business rate to \$38.95, exclusive of surcharges, fees, and taxes, is reasonably comparable to rates charged to customers of urban telephone corporations, as required by Pub. Util. Code §275.6.

13. Pursuant to Rule 11.4, the parties have requested to file under seal confidential materials, including reports, work papers and testimony.

14. Appendix A "Intrastate Results of Operations" are not confidential data.

Conclusions of Law

1. Volcano's application should be granted as modified by this decision.

2. Volcano's CHCF-A subsidy should be \$2,911,734.

3. Volcano's proposed total operating expense of \$9,142,185 should be reduced to \$8,226,431.

4. Volcano's overall intrastate revenue requirement for test year 2023 should be \$10,798,962.

5. End user rates for residential customers should be set at \$27.50 (exclusive of surcharges, fees, and taxes) and for business customers at \$38.95 (exclusive of surcharges, fees, and taxes).

6. It is appropriate to authorize Volcano to submit a Tier 2 Advice Letter to the Commission's Communications Division within 30 days of the effective date of this decision to request any revenue differential between January 1, 2023 and the first day of the next month (resulting from the decision not being approved as of January 1, 2023), following the adoption of this decision (effective date), through the CHCF-A Fund. The Advice Letter should provide a calculation to "true-up" the revenue differential.

O R D E R

1. Volcano Telephone Company's application for review of intrastate rates and charges and rate of return for telephone services in California for Test Year 2023 is granted as set forth below and the accompanying Appendix A and Appendix B:

- a. Volcano Telephone Company's operating revenues shall be \$9,206,788, not including net positive broadband revenues;
 - b. As part of its operating revenues, Volcano Telephone Company's total California High Cost Fund-A adopted support shall be \$2,911,734;
 - c. Volcano Telephone Company's total operating expenses shall be \$8,226,431;
 - d. Volcano Telephone Company's rate of return shall be 9.12% until the Commission adopts an adjustment pursuant to Application 22-09-003; and
 - e. Volcano Telephone Company's rate base shall be \$28,207,583.
2. Volcano Telephone Company shall modify its tariffs to charge:
- a. Basic residential rates of \$27.50 per month (exclusive of surcharges, fees and taxes).
 - b. Basic business rate of \$38.95 per month (exclusive of surcharges, fees and taxes.)

- c. Call Waiting, Call Forwarding (Variable, Busy, Busy-Extended and Delayed), and Economy Voice Mailbox Services will be included as part of basic rates for residential and business service shown in Appendix B. Additional custom calling features will be charged at the existing rates shown in the tariff.
- d. Within 5 days from the issuance of this decision, Volcano Telephone Company shall file a Tier 1 compliance Advice Letter with the Communications Division submitting modified tariffs to reflect adopted rates as reflected in Ordering Paragraph 1. Within seven days of the effective date of the advice letter, Volcano shall notify its customers of the revised tariffs and rates.

e.

3. Volcano Telephone Company is directed to submit its broadband service quality (SQ) metrics to the Communication Division on annual basis using a Tier 1 Advice Letter. The SQ metrics should include: (1) A total number of broadband service orders received and the number of those orders completed per month, during the previous 12 months; (2) Monthly broadband trouble tickets as a result of customer-initiated complaints on its broadband service in California, and (3) Annual broadband network unavailability due to service outages.

4. ~~3-~~California High Cost Fund-A support amounts shall be effective on January 1, 2023.

5. ~~4-~~Volcano Telephone Company is directed to submit a Tier 2 Advice Letter to the Communications Division within 30 days of the effective date of this decision to request any revenue adjustment resulting from this decision not being approved as of January 1, 2023, through the California High Cost Fund-A. The Advice Letter must provide a calculation to “true-up” the revenue differential for the Test Year 2023.

6. ~~5.~~ The requests (by motion or on the hearing record) by Volcano Telephone Company and the Public Advocate's Office of the Public Utilities Commission, that public and confidential versions of testimony and exhibits be received into evidence are granted. The confidential portions of the record are sealed, pursuant to Rule 11.5 of the Commission's Rules of Practice and Procedure. Confidential versions of testimony and exhibits are granted confidential treatment for a period of three years from the date of this order. During this three-year period, this information may not be viewed by any person other than Commission staff, except as agreed to in writing by the parties, or on the further order or ruling of the Commission, the assigned Commissioner, the assigned Administrative Law Judge (ALJ), the Assistant Chief ALJ, the Chief ALJ, the ALJ then designated as Law and Motion Judge, or as ordered by a court of competent jurisdiction. If either party believes that it is necessary for confidential information to remain under seal for longer than three years, the party may file a motion providing a justification for a further extension at least 30 days before the expiration of the three-year period granted by this order.

7. ~~6.~~ All other motions filed by either party, which have not been ruled upon prior to this decision are deemed denied.

8. ~~7.~~ Application 21-11-006 is closed.

This Order is effective today.

Dated _____, at San Francisco, California.

**Appendix A: Volcano Results of Operations Adopted Rates
and Basic Business Service Rate**

A.21-11-006 VOLCANO General Rate Case

Intrastate Results of Operations

Adopted Rates

Line #	Description	Cal Advocates Proposed ¹⁰⁴¹⁰⁵ (A)	Volcano Proposed ¹⁰⁵¹⁰⁶ (B)	Commission Adjustments to Volcano Proposed (C)	ADOPTED (D)
OPERATING REVENUES:					
1	Total Revenue	\$ 10,684,919	\$ 11,741,175	\$ (942,213)	\$ 10,798,962
1.a	Total Regulated Revenue	\$ 9,092,745	\$ 10,149,001	\$ (942,213)	\$ 9,206,788
1.a (1)	Local Revenue	\$ 3,277,845	\$ 3,277,845	\$ 201,310	\$ 3,479,155
1.a (2)	High Cost Loop Support ¹⁰⁶¹⁰⁷	\$ 1,925,783	\$ 2,227,988	\$ -	\$ 2,227,988
1.a (2)	Intrastate Special Access Revenue	\$ 30,709	\$ 30,709	\$ -	\$ 30,709
1.a (3)	Intrastate Switch Access Revenue	\$ 496,270	\$ 496,270	\$ -	\$ 496,270
1.a (4)	Miscellaneous	\$ 69,216	\$ 69,216	\$ -	\$ 69,216
1.a (5)	Less: Uncollectible Revenue	\$ (8,284)	\$ (8,289)	\$ 5	\$ (8,284)
1.a (6)	CHCF-A	\$ 3,301,206	\$ 4,055,262	\$(1,143,528)	\$ 2,911,734
1.b	Net Positive Broadband	\$ 1,592,174	\$ 1,592,174	\$ -	\$ 1,592,174

¹⁰⁴¹⁰⁵ See Cal Advocates Opening Brief, Attachment A

¹⁰⁵¹⁰⁶ See Volcano Reply Brief, Appendix A

¹⁰⁶¹⁰⁷ Both Cal Advocates and Volcano agreed that the Commission should update the High Cost Loop Support amount with the actual figure from NECA when it is released in October 2022. Volcano updated their proposal to include the actual amount from NECA in their Reply Briefs (filed October 10, 2022).

Line #	Description	Cal Advocates Proposed 104 105	Volcano Proposed 105 106	Commission Adjustments to Volcano Proposed	ADOPTED
	Revenue Imputation				
OPERATING EXPENSES:					
2	Total Operating Expense	\$ 8,185,716	\$ 9,142,185	\$ (915,754)	\$ 8,226,431
2.a	Operating Expense Subtotal	\$ 5,098,183	\$ 5,385,012	\$ (286,828)	\$ 5,098,184
2.a (1)	Plant Specific	\$ 1,700,188	\$ 1,786,488	\$ (86,300)	\$ 1,700,188
2.a (2)	Plant Non-Specific (less depr.)	\$ 1,244,363	\$ 1,299,572	\$ (55,209)	\$ 1,244,363
2.a (3)	Customer Operations	\$ 713,238	\$ 739,378	\$ (26,140)	\$ 713,238
2.a (4)	Corporate Operations	\$ 1,440,395	\$ 1,559,575	\$ (119,180)	\$ 1,440,395
2.b	Depreciation & Amortization Expense	\$ 2,743,008	\$ 2,743,008	\$ -	\$ 2,743,008
2.c	Tax (excluding income tax)	\$ 108,390	\$ 117,161	\$ 30	\$ 117,191
2.c (1)	Taxes Other Than Income	\$ 262,256	\$ 262,226	\$ 30	\$ 262,256
2.c (2)	Amortized Excess Deferred Income Tax	\$ (153,866)	\$ (145,065)	\$ -	\$ (145,065)
2.d	Income Tax	\$ 236,135	\$ 897,004	\$ (628,956)	\$ 268,048
2.d (1)	State Income Tax	\$ 74,595	\$ 283,363	\$ (198,687)	\$ 84,676
2.d (2)	Federal Income Tax	\$ 161,540	\$ 613,641	\$ (430,269)	\$ 183,372
RATE BASE:					
3	Total Rate Base	\$ 27,403,544	\$ 28,497,714	\$ (290,131)	\$ 28,207,583
3.1	Telephone Plant-in-Service	\$ 76,846,998	\$ 76,846,998	\$ -	\$ 76,846,998
3.2	Telephone Plant Under Construction	\$ -	\$ -	\$ -	\$ -
3.3	Material & Supplies	\$ 3,125,667	\$ 3,125,667	\$ -	\$ 3,125,667
3.4	Working Cash	\$ 489,562	\$ 506,359	\$ -	\$ 506,359
3.5	Less: Depreciation Reserve	\$(49,487,574)	\$(49,487,574)	\$ -	\$(49,487,574)
3.6	Less: Deferred Taxes	\$ (2,716,591)	\$ (1,924,948)	\$ -	\$ (1,924,948)
3.7	Less: Post Retirement Benefits	\$ -	\$ -	\$ -	\$ -
3.8	Less: Customer Deposits	\$ (8,256)	\$ (8,256)	\$ -	\$ (8,256)
3.9	Less: UEDTB	\$ (846,262)	\$ (560,532)	\$ (290,131)	\$ (850,663)
4	Net Revenues	\$ 2,499,203	\$ 2,598,990	\$ -	\$ 2,572,531

Line #	Description	Cal Advocates Proposed 104 ¹⁰⁵	Volcano Proposed 105 ¹⁰⁶	Commission Adjustments to Volcano Proposed	ADOPTED
5	Authorized Rate of Return	9.120%	9.120%	9.120%	9.120%
6	Return on Rate Base	\$ 2,499,203	\$ 2,598,991	\$ (26,460)	\$ 2,572,532
7	Revenue Requirement	\$ 10,684,919	\$ 11,741,176	\$ (942,214)	\$ 10,798,962
8	CHCF - A Subsidy	\$ 3,301,206	\$ 4,055,262	\$ -	\$ 2,911,734
9	Rate of Return	9.120%	9.120%		9.120%
10	For Income Tax Calculations				
10.1	State Tax Rate	8.84%	8.84%		8.84%
10.2	Federal Tax Rate	21.00%	21.00%		21.00%
10.3	Interest Expense	\$ 145,466	\$ 145,466	\$ -	\$ 145,466
10.4	State Taxable Income	\$ 843,832	\$ 3,205,463	\$(2,247,589)	\$ 957,874
10.5	Federal Taxable Income	\$ 769,237	\$ 2,922,100	\$(2,048,902)	\$ 873,198

(END APPENDIX A)

**Appendix B: New Volcano Basic Residential Service Rate and
Basic Business Service Rate**

Basic Service	Rate Per Month	Included Custom Calling Features
Residence Service	\$27.50	A. Call Waiting B. Call Forwarding: <ol style="list-style-type: none"> 1. Variable 2. Busy Call Forwarding 3. Delayed Call Forwarding 4. Busy Call Forwarding - Extended C. Economy Voice Mailbox
Business Service	\$38.95	A. Call Waiting B. Call Forwarding: <ol style="list-style-type: none"> 1. Variable 2. Busy Call Forwarding 3. Delayed Call Forwarding 4. Busy Call Forwarding - Extended C. Economy Voice Mailbox

Other custom calling features and voicemail options not specifically identified in Appendix B shall continue to be offered to customers at the rates identified in Volcano's tariff.

(END APPENDIX B)

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Description	(Rev. 1) A.21-11-006 Decision Approving Revenue Requirement
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